Alpena General Hospital

Financial Report
June 30, 2008

Contents

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Independent Auditor's Report

To the Board of Trustees
Alpena General Hospital

We have audited the accompanying basic financial statements of Alpena General Hospital (a component unit of Alpena County) (the "Hospital") as of and for the years ended June 30, 2008 and 2007 as listed in the table of contents. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Alpena General Hospital as of June 30, 2008 and 2007 and the changes in financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements do not present a Management's Discussion and Analysis, which would be an analysis of the financial performance for the year. The *Governmental Accounting Standards Board* has determined that this analysis is necessary to supplement, although not required to be a part of, the basic financial statements.

Plante & Moran, PLLC

October 8, 2008

Alpena General Hospital

Balance Sheet

	June 30, 2008	June 30, 2007
Assets		
Current Assets		
Cash and cash equivalents (Note 2)	$ 2,866,047	$ 974,349
Accounts receivable (Note 3)	9,923,885	13,174,396
Estimated third-party payor settlements	355,381	1,445,108
Assets limited as to use (Notes 2 and 5)	859,594	863,639
Prepaid expenses and other	1,877,231	1,922,864
Inventory	2,887,837	2,744,654
Total current assets	18,769,975	21,125,010
Assets Limited as to Use - Net of current portion (Notes 2 and 5)	21,823,310	12,603,268
Property and Equipment (Note 6)	36,508,238	33,942,569
Other Assets		
Investment in joint venture (Note 7)	2,107,956	2,168,681
Bond issue costs	278,947	233,646
Total assets	**$ 79,488,426**	**$ 70,073,174**
Liabilities and Net Assets		
Current Liabilities		
Current portion of long-term debt (Note 8)	$ 2,240,297	$ 1,906,658
Accounts payable	3,094,170	2,261,905
Estimated third-party payor settlements	-	2,968,319
Accrued liabilities and other:		
Compensation	3,303,143	3,124,285
Compensated absences	2,890,403	2,929,664
Professional and other liability claims (Note 11)	500,000	531,832
Interest	192,257	92,264
Other accrued liabilities	628,620	679,628
Total current liabilities	12,848,890	14,494,555
Long-term Debt - Net of current portion (Note 8)	18,408,779	10,123,254
Deferred Revenue (Note 10)	1,418,982	1,481,382
Total liabilities	32,676,651	26,099,191
Net Assets		
Invested in capital assets - Net of related debt	20,346,891	20,316,028
Restricted:		
Donor restricted for specific operating activities	1,018,140	682,718
Donor restricted for development/research	2,773,276	2,501,234
Restricted for debt service	859,594	863,639
Unrestricted	21,813,874	19,610,364
Total net assets	46,811,775	43,973,983
Total liabilities and net assets	**$ 79,488,426**	**$ 70,073,174**

See Notes to Financial Statements.

Alpena General Hospital

Statement of Revenues, Expenses, and Changes in Net Assets

	Year Ended	
	June 30, 2008	June 30, 2007
Operating Revenues		
Net patient service revenue (Note 4)	$ 101,315,072	$ 99,122,689
Other	3,470,641	3,559,289
Total operating revenues	104,785,713	102,681,978
Operating Expenses		
Salaries and wages	42,778,207	41,767,848
Employee benefits and payroll taxes	14,966,201	15,000,123
Medical supplies and drugs	18,567,831	19,610,239
Professional services, consultant and recruiting fees	8,588,805	6,994,288
Utilities and food	1,501,679	1,665,127
Other	11,925,144	10,736,807
Depreciation	5,406,896	5,134,432
Total operating expenses	103,734,763	100,908,864
Operating Income	1,050,950	1,773,114
Nonoperating Income (Expense)		
Investment income	533,319	586,586
Loss on sale of property	(15,963)	(29,389)
Noncapital grants and contributions	796,056	624,502
Property taxes	890,000	862,609
Interest expense	(628,256)	(647,085)
Net nonoperating income	1,575,156	1,397,223
Excess of Revenue Over Expenses Before Capital Grants and Contributions	2,626,106	3,170,337
Capital Grants and Contributions	211,686	388,213
Increase in Net Assets	2,837,792	3,558,550
Net Assets - Beginning of year	43,973,983	40,415,433
Net Assets - End of year	**$ 46,811,775**	**$ 43,973,983**

See Notes to Financial Statements.

Alpena General Hospital

Statement of Cash Flows

	Year Ended June 30, 2008	Year Ended June 30, 2007
Cash Flows from Operating Activities		
Cash received from patients and third-party payors	$ 102,686,991	$ 97,022,589
Cash payments to employees and suppliers	(97,629,495)	(95,479,457)
Other receipts from operations	3,408,241	3,496,889
Net cash provided by operating activities	8,465,737	5,040,021
Cash Flows from Noncapital Financing Activities - Noncapital grants and contributions	796,056	624,502
Cash Flows from Investing Activities		
Investment income	400,152	380,311
Purchase of investments	(6,017,349)	(117,458)
Proceeds from sale and maturities of investments	6,873	3,643,228
Net cash (used in) provided by investing activities	(5,610,324)	3,906,081
Cash Flows from Capital and Related Financing Activities		
Proceeds from sale of capital assets	4,236	1,228
Issuance of long-term debt	10,552,695	-
Property tax levy	890,000	862,609
Contributions restricted for capital expenditure	211,686	388,213
Interest paid on long-term debt	(673,557)	(613,626)
Principal payments on long-term debt	(1,933,531)	(1,862,394)
Purchase of capital assets	(7,605,779)	(3,971,242)
Net cash provided by (used in) capital and related financing activities	1,445,750	(5,195,212)
Net Increase in Cash and Cash Equivalents	5,097,219	4,375,392
Cash and Cash Equivalents - Beginning of year	10,942,449	6,567,056
Cash and Cash Equivalents - End of year	**$ 16,039,668**	**$ 10,942,448**
Balance Sheet Classification of Cash and Cash Equivalents		
Cash and cash equivalents	$ 2,866,047	$ 974,349
Assets limited as to use	13,173,621	9,968,100
Total cash and cash equivalents	**$ 16,039,668**	**$ 10,942,449**
Supplemental Cash Flow Information		
Construction payable (property and equipment additions)	**$ 502,233**	**$ 115,248**

See Notes to Financial Statements.

Statement of Cash Flows (Continued)

A reconciliation of operating income to net cash from operating activities is as follows:

	Year Ended June 30, 2008	Year Ended June 30, 2007
Cash Flows from Operating Activities		
Operating income	$ 1,050,950	$ 1,773,114
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation	5,406,896	5,134,432
Provision for bad debts	3,633,000	2,688,000
Change in assets and liabilities:		
Patient accounts receivable	(382,489)	(5,987,639)
Third-party settlement receivables	1,089,727	(560,024)
Inventories	(143,183)	(13,167)
Prepaid expenses and other assets	45,633	(186,124)
Accounts payable	445,280	266,805
Accrued liabilities	156,750	227,461
Third-party settlement payable	(2,968,319)	1,759,563
Deferred revenue	(62,400)	(62,400)
Other	193,892	-
Net cash provided by operating activities	**$ 8,465,737**	**$ 5,040,021**

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Note 1 - Nature of Business and Significant Accounting Policies

Reporting Entity and Corporate Structure - Alpena General Hospital (the "Hospital") is a short-term, acute-care facility offering inpatient and outpatient health care services primarily to citizens in Alpena County, Michigan and surrounding areas. The Hospital is organized under Public Act 230 of the Public Acts of 1987 as a county health facilities corporation.

The board of county commissioners appoints the members of the board of trustees of the Hospital, and the Hospital may not issue debt or levy taxes without the county's approval. For this reason, the Hospital is considered to be a component unit of Alpena County and is included as a discretely-presented component unit in the basic financial statements of the county.

The accounting policies of the Hospital conform to accounting principles generally accepted in the United States of America. Because the Hospital provides a service to citizens that is financed primarily by a user charge, the accounts of the Hospital are accounted for as an enterprise fund, utilizing the full accrual method of accounting.

Basis of Presentation - The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments,* issued in June 1999. The Hospital follows the "business-type" activities reporting requirements of GASB Statement No. 34, which provide a comprehensive look at the Hospital's financial activities. No component units are required to be reported in the Hospital's financial statements. As permitted by GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Hospital has elected to not apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), issued after November 30, 1989.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents - Cash and cash equivalents include investments in highly liquid debt investments purchased with an original maturity of three months or less, excluding amounts limited as to use by board designation or other arrangements under trust agreements and donor-restricted cash.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Accounts Receivable - Accounts receivable for patients, insurance companies, and governmental agencies are based on gross charges. An allowance for uncollectible accounts is established on an aggregate basis by using historical write-off rate factors applied to unpaid accounts based on aging. Loss rate factors are based on historical loss experience and adjusted for economic conditions and other trends affecting the Hospital's ability to collect outstanding amounts. Uncollectible amounts are written off against the allowance for doubtful accounts in the period they are determined to be uncollectible. An allowance for contractual adjustments and interim payment advances is based on expected payment rates from payors based on current reimbursement methodologies. This amount also includes amounts received as interim payments against unpaid claims by certain payors.

Inventories - Inventory is stated at the lower of cost (first-in, first-out method) or market.

Property and Equipment - Property and equipment amounts are recorded at cost or fair market value at the date of donation. Depreciation is computed principally on the straight-line basis over the estimated useful lives of the assets. Costs of maintenance and repairs are charged to expenses when incurred.

Debt Issuance Costs - Financing cost are amortized over the life of the related bond issue using the interest method.

Investments - Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the balance sheet. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in nonoperating income.

Investments in Joint Ventures - Investments in joint ventures are comprised mainly of investments the Hospital has in companies in which the Hospital has 33 percent to 50 percent ownership interests. These investments are carried at cost and adjusted for the Hospital's proportionate shares of its undistributed earnings and losses.

Third-party Settlements - Contractual adjustments under third-party reimbursement programs represent the difference between the Hospital's established rates for services and amounts reimbursed by third-party payors. Cost report settlements result from the adjustment of interim payments to final reimbursement under these programs.

Paid Time-off - The Hospital maintains a paid time-off policy and the benefits are charged to operations when earned. Unused and earned benefits are recorded as a current liability in the financial statements.

Capital-related Net Assets - Capital-related net assets related to the purchase of property and equipment, net of related debt and construction payables.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Donor-restricted Net Assets - Donor-restricted net assets are net assets temporarily restricted for donor-specified purposes or the development fund relating to the purchase of capital assets. Donor-restricted net assets are released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of other events specified by donors.

Operating Revenue and Expenses - The Hospital's statement of revenues, expenses, and changes in net assets distinguishes between operating and nonoperating revenue and expenses. Operating revenue results from exchanged transactions associated with providing healthcare services, which is the Hospital's principal activity. Nonexchange revenue, including taxes, grants, and contributions received for purposes other than capital asset acquisition, is reported as nonoperating revenue. Operating expenses are all expenses incurred to provide healthcare services other than financing costs.

Tax Levy - In 2007, the citizens of Alpena County approved a tax levy not to exceed one mill on the taxable value of property in Alpena County for a period of 10 years. The purpose of this levy is to be used for the acquisition, construction, and equipping of healthcare facilities by the Hospital.

Contributions, Bequests, and Grants - Unrestricted gifts and bequests are included in other nonoperating revenue when received.

Reclassifications - Certain 2007 amounts in the Hospital's financial statements have been reclassified to conform with the 2008 presentation.

Note 2 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally-insured banks, credit unions, and savings and loan associations that have offices in Michigan. A local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Hospital has designated four banks for the deposit of its funds. The Hospital's deposits and investment policies are in accordance with statutory authority.

The Hospital's cash and investments are subject to several types of risk, which are examined in more detail below.

Note 2 - Deposits and Investments (Continued)

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that, in the event of a bank failure, the Hospital's deposits may not be returned to it. The Hospital does not have a deposit policy for custodial credit risk. For the years ended June 30, 2008 and 2007, the Hospital had approximately $19,200,000 and $9,100,000, respectively of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The Hospital believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Hospital evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Hospital's investment policy does not restrict investment maturities other than commercial paper, which can only be purchased with a 270-day maturity. For the year ended June 30, 2008, the Hospital had $4,000,000 invested in commercial paper, which has a weighted average maturity date of October 2, 2008. For the year ended June 30, 2007, the Hospital had $2,000,000 commercial paper, which had a weighted average maturity date of August 27, 2007.

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Hospital has no investment policy that would further limit its investment choices. For the year ended June 30, 2008, the Hospital has $1,283,000 invested in sweep accounts rated AAA by S&P and $4,000,000 invested in commercial paper rated A1+ by S&P. For the year ended June 30, 2007, the Hospital had $498,000 invested in sweep accounts rated AAA by S&P and $2,000,000 invested in commercial paper rated A1+ by S&P.

Concentration of Credit Risk - The Hospital places no limit on the amount it may invest in any one issuer. More than 5 percent of the Hospital's investments is in commercial paper; these investments are 80 percent of the Hospital's total investments.

Risks and Uncertainties - The Hospital invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the balance sheet.

Note 3 - Patient Accounts Receivable

The details of patient accounts receivable are set forth below:

	2008	2007
Patient accounts receivable	$ 38,089,399	$ 39,427,571
Less:		
Allowance for uncollectible accounts	(4,040,819)	(3,416,404)
Allowance for contractual adjustments	(25,657,761)	(23,906,657)
Net patient accounts receivable	8,390,819	12,104,510
Other accounts receivable	1,533,066	1,069,886
Total accounts receivable	$ 9,923,885	$ 13,174,396

The Hospital grants credit without collateral to patients, most of whom are local residents and are insured under third-party payor agreements. The composition of receivables from patients and third-party payors was as follows:

	Percentage	
	2008	2007
Medicare	43	47
Blue Cross/Blue Shield of Michigan	12	14
Medicaid	12	11
Commercial insurance and other	9	11
Self-pay	24	17
Total	100	100

Note 4 - Patient Service Revenue

The Hospital grants equal access to healthcare service to all individuals regardless of financial status. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for service rendered. Net patient service revenue includes estimated retroactive adjustments under reimbursement agreements with third parties. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements occur.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes that it is in compliance with all applicable laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Note 4 - Patient Service Revenue (Continued)

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors is as follows:

- **Medicare** - Inpatient acute-care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system based on clinical, diagnostic, and other factors.
- **Medicaid** - Inpatient acute-care services rendered to Medicaid program beneficiaries are also paid at prospectively determined rates per discharge. Capital cost relating to Medicaid patients are paid on a cost-reimbursement method. The Hospital is reimbursed for outpatient services on an established fee-for-service methodology.
- **Blue Cross/Blue Shield of Michigan** - Inpatient acute-care services rendered to Blue Cross/Blue Shield of Michigan subscribers are also paid at prospectively determined rates per discharge. Outpatient services are reimbursed on a percentage of controlled charges.

Cost report settlements result from the adjustment of interim payments to final reimbursement under these programs and are subject to audit by fiscal intermediaries. Although these audits may result in some changes in these statements, they are not expected to have a material effect on the accompanying financial statements.

Note 5 - Assets Limited as to Use

Assets limited as to use consist of the following, stated at fair value:

	2008	2007
Current assets - Restricted by bond indenture for future bond payments - Cash and investments	$ 859,594	$ 863,639
Noncurrent assets:		
Designated by the board for future capital acquisitions - Cash and investments	$ 11,622,950	$ 9,419,316
Unexpended bond proceeds	6,408,944	-
Donor restricted:		
Specific purpose fund investments	1,018,140	682,718
Development fund investments	2,413,270	2,024,667
Development fund pledges	360,006	476,567
Total noncurrent assets	$ 21,823,310	$ 12,603,268

Note 5 - Assets Limited as to Use (Continued)

Bond payments and reserve funds are restricted for interest and bond principal payments and future debt service.

Funds designated for replacement and improvement of property and equipment consist primarily of resources of the Hospital that the board has designated for specific purposes.

Unexpended bond proceeds represent monies not yet spent from the issuance of the 2008 bonds which are to be used to fund various capital expenditures; see Note 6.

Donor-restricted items are reflected as additions to the appropriate funds as follows:

Development Fund - The Hospital's development committee solicits gifts for specific projects. Amounts collected for these projects are included in the development fund, including pledges receivable, of which the majority is expected to be received within five years. The pledges are recorded net of the allowance for uncollectible pledges of $228,000 for 2008 and 2007.

Specific Purpose Funds - Amounts restricted for capital additions are transferred to the General Fund when expenditures that meet these requirements are made.

Note 6 - Property and Equipment

The cost of capital assets and related depreciable lives for June 30, 2008 are summarized as follows:

	2007	Additions	Transfers	Retirements	2008	Depreciable Life - Years
Land and land improvements	$ 2,351,930	$ 35,765	$ -	$ -	$ 2,387,695	5-25
Building	52,753,530	1,480,874	679,342	-	54,913,746	15-40
Equipment	32,028,370	2,566,228	-	(1,457,500)	33,137,098	3-20
Construction in progress	627,171	3,909,898	(679,342)	-	3,857,727	-
Total	87,761,001	7,992,765	-	(1,457,500)	94,296,266	
Less accumulated depreciation:						
Land and land improvements	1,264,481	79,707	-	-	1,344,188	
Building	30,014,821	1,668,907	-	-	31,683,728	
Equipment	22,539,130	3,658,282	-	(1,437,300)	24,760,112	
Total	53,818,432	5,406,896	-	(1,437,300)	57,788,028	
Net carrying amount	$ 33,942,569	$ 2,585,869	$ -	$ (20,200)	$ 36,508,238	

Note 6 - Property and Equipment (Continued)

The cost of capital assets and related depreciable lives for June 30, 2007 are summarized as follows:

	2006	Additions	Transfers	Retirements	2007	Depreciable Life - Years
Land and land improvements	$ 2,351,930	$ -	$ -	$ -	$ 2,351,930	5-25
Building	50,508,682	230,223	2,014,625	-	52,753,530	15-40
Equipment	30,462,959	2,398,114	-	(832,703)	32,028,370	3-20
Construction in progress	1,710,892	930,904	(2,014,625)	-	627,171	-
Total	85,034,463	3,559,241	-	(832,703)	87,761,001	
Less accumulated depreciation:						
Land and land improvements	1,177,739	86,742	-	-	1,264,481	
Building	28,429,718	1,585,103	-	-	30,014,821	
Equipment	19,878,629	3,462,587	-	(802,086)	22,539,130	
Total	49,486,086	5,134,432	-	(802,086)	53,818,432	
Net carrying amount	$ 35,548,377	$ (1,575,191)	$ -	$ (30,617)	$ 33,942,569	

Construction in progress at year end is composed of costs related to various renovation and remodeling projects and technology upgrades. The primary project relates to hospital information technology upgrades with an estimated cost to complete of $8,200,000 which is being funded by both the 2008 bond issuance and out of board designated funds.

Note 7 - Investment in Joint Ventures

The Hospital has a 50 percent interest in both a cancer center and dialysis services and a 33 percent interest in a mobile imaging service.

In connection with the dialysis ownership, the Hospital has guaranteed 50 percent of a debt issue. The debt is due in annual installments through March 2022. Under terms of the guarantee, the Hospital would be required to pay 50 percent of the outstanding principal and interest in the event the joint venture fails to makes the required payments. As of June 30, 2008, the maximum potential future payments under this guarantee total approximately $781,000. In the event the Hospital is required to make payments under this guarantee, the Hospital could seek to recover those amounts from the affiliate; however, the Hospital does not hold specific recourse or collateral rights in connection with the guarantees.

In connection with the cancer center ownership, the Hospital is leasing a portion of their building to the joint venture. The joint venture has made advance rent payments of $1,860,982 which are being amortized; see Note 10.

Note 7 - Investment in Joint Ventures (Continued)

Transactions with the joint ventures during the years ended June 30, 2008 and 2007 were immaterial. Investment income related to these joint ventures was $229,276 and $206,275 in 2008 and 2007, respectively, and is reported as other income.

The following is a summary of financial position and results of operations of the joint ventures as of June 30, 2008 and 2007:

	2008 (unaudited)	2007 (unaudited)
Total assets	$ 6,921,435	$ 7,733,574
Total liabilities	2,637,462	3,352,447
Net assets	$ 4,283,973	$ 4,381,127
Increase (decrease) in net assets	$ (97,154)	$ 416,854

Note 8 - Long-term Debt

Long-term liability activity for the year ended June 30, 2008 was as follows:

	2007	Current Year Additions	Current Year Reductions	2008	Amounts Due Within One Year
Series 1999	$ 5,700,000	$ -	$ (325,000)	$ 5,375,000	$ 325,000
Series 2000	4,500,000	-	(250,000)	4,250,000	275,000
Series 2003	840,000	-	(840,000)	-	-
Series 2008	-	10,552,695	(31,895)	10,520,800	1,200,000
Other	989,912	-	(486,636)	503,276	440,297
Total long-term debt	$ 12,029,912	$ 10,552,695	$ (1,933,531)	$ 20,649,076	$ 2,240,297

Long-term liability activity for the year ended June 30, 2007 was as follows:

	2006	Current Year Additions	Current Year Reductions	2007	Amounts Due Within One Year
Series 1999	$ 6,000,000	$ -	$ (300,000)	$ 5,700,000	$ 325,000
Series 2000	4,725,000	-	(225,000)	4,500,000	250,000
Series 2003	1,650,000	-	(810,000)	840,000	840,000
Other	1,517,306	-	(527,394)	989,912	491,658
Total long-term debt	$ 13,892,306	$ -	$ (1,862,394)	$ 12,029,912	$ 1,906,658

Note 8 - Long-term Debt (Continued)

Long-term debt is summarized as follows:

- **Series 1999** - General obligation bonds Series 1999 bearing an interest rate of 4.88 percent. Interest is due and payable on a semiannual basis. The bonds are insured through a municipal bond insurance policy and are due in annual installments ranging from $325,000 to $550,000. The bonds are collateralized by net revenue of the Hospital.
- **Series 2000** - General obligation bonds Series 2000 bearing interest at rates ranging from 5 percent to 5.35 percent. Interest is due and payable on a semiannual basis. The bonds are insured through a municipal bond insurance policy and are due in annual installments ranging from $250,000 to $550,000. The bonds are collateralized by net revenue of the Hospital.
- **Series 2003** - General obligation bonds Series 2003 bore an interest rate of 3.53 percent. Interest was due and payable on a semiannual basis. These bonds were insured through a municipal bond insurance policy and were collateralized by net revenue of the Hospital. The bond was fully paid in April of the current year.
- **Series 2008** - In April 2008, the Hospital issued Series 2008 general obligation bonds bearing interest rates ranging from 4 percent to 5.25 percent. The bonds were issued at a premium of $557,695, of which $525,800 remained unamortized at year end. Interest is due and payable on a semiannual basis. The bonds are due in annual installments ranging from $1,200,000 to $1,645,000. These bonds were collateralized by net revenue of the Hospital. The County of Alpena guarantees the bonds and has pledged to support the prompt payment of the principal of and interest on the Bonds when due from the General Fund of the County of Alpena. The bonds are not secured by a pledge of the full faith and credit of the County of Alpena.

In connection with the bond issues, the Hospital has agreed to various covenants. These covenants include maintaining a sinking fund for the annual principal payment and certain financial ratios.

Note 8 - Long-term Debt (Continued)

The following is a schedule by years of principal and interest as of June 30, 2008:

Years Ending June 30	Principal	Interest
2009	$ 2,240,297	$ 976,031
2010	1,987,979	849,129
2011	2,025,000	764,666
2012	2,125,000	676,759
2013	2,225,000	584,416
2014 - 2018	7,420,000	1,342,731
2019 - 2023	2,100,000	109,800
Total payments	20,123,276	5,303,532
Plus unamortized bond premium	525,800	-
Net long-term debt	$20,649,076	$ 5,303,532

Note 9 - Retirement Benefits

Plan Description - The Hospital sponsors both a defined benefit plan and a defined contribution plan. The Hospital participates in the Michigan Municipal Employees' Retirement System (MMERS). MMERS covers all employees of the Hospital hired before February 1, 1998. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. MMERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MMERS at 1134 Municipal Way, Lansing, Michigan, 48917.

Funding Policy - Benefit provisions of MMERS and employer and employee obligations to contribute are outlined in Act No. 47 of the Public Acts of 1984, as amended. Pension expense consists of normal costs of the plan and amortization of prior service cost over a 40-year period, net of amortization of investment gains over a 10-year period. Effective June 1, 2008, certain employees are required to contribute 1 percent of gross earnings.

Note 9 - Retirement Benefits (Continued)

Annual Pension Cost - The Hospital's contributions to the plan amounted to $2,761,489 and $2,601,328 in 2008 and 2007, respectively. The actuarially determined contribution requirements have been met based on actuarial valuations performed at December 31, 2007 and 2006. Significant assumptions used include (a) an 8 percent investment rate of return, (b) projected salary increases of 4.5 percent, and (c) additional projected salary increases ranging from 0 to 8.4 percent per year, depending on age, attributable to seniority and merit. Both (b) and (c) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is being amortized as by level percent of payroll contributions over a period of 28 years.

Three-year trend information is presented below to show the progress of the Hospital's status regarding certain key indicators:

	Year Ended June 30		
	2008	2007	2006
Annual Pension Cost (APC)	$ 2,761,489	$ 2,601,328	$ 2,542,628
Percentage of APC contributed	100	100	100

	Year Ended December 31		
	2007	2006	2005
Actuarial value of assets	$ 107,131,464	$ 100,795,387	$ 94,527,227
Actuarial Accrued Liability (AAL) (entry age)	$ 121,979,954	$ 115,059,038	$ 107,598,615
Unfunded Actuarial Accrued Liability (UAAL)	$ (14,848,490)	$ (14,263,651)	$ (13,071,388)
Funded ratio (percent)	87.83	87.60	87.85
Covered payroll	$ 24,331,516	$ 25,540,341	$ 25,361,440
UAAL as percentage of covered payroll	61.03	55.85	51.54

The Hospital sponsors a defined contribution plan covering all employees hired after February 1, 1998. Participating employees in this plan may contribute a percentage of their gross earnings and the Hospital contributes 3 percent to 9 percent based on participants' contributions and hire date. The Hospital's contribution totaled $1,287,344 and $1,213,278 for the years ended June 30, 2008 and 2007, respectively.

Note 10 - Deferred Revenue

Deferred revenue relates to a prepaid lease from a joint venture that occupies a portion of a building attached to the Hospital. Under terms of the agreement, the lessee paid for a portion of the construction cost of the building, which the Hospital owns. In exchange, the Hospital issued a 30-year lease. Under terms of the lease agreement, the lessee makes no payment for rental of the building, although payments are made to the Hospital for certain operating costs of the building, such as housekeeping, utilities, and maintenance.

During the year ended June 30, 2001, the Hospital recorded deferred revenue and building in the amount of $1,860,982. Rental income of $62,400 will be recognized each year for the remainder of the 30-year lease.

	2008	2007
Deferred revenue - Beginning of year	$ 1,481,382	$ 1,543,782
Less rental income recognized	(62,400)	(62,400)
Deferred revenue - End of year	$ 1,418,982	$ 1,481,382

Note 11 - Risk Management

The Hospital is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Hospital has purchased commercial insurance for property loss, torts, and errors and omissions and participates in the Michigan Hospital Association risk pool for claims related to employee injuries (workers' compensation) and unemployment. The Hospital is self-insured for medical benefits provided to employees. The Hospital has purchased a stop-loss insurance policy to cover individual medical claims in excess of amounts ranging from $75,000 to $100,000 in any one plan year. Settled claims relating to commercial insurance have not exceeded the amount of insurance in any of the past three fiscal years.

The Michigan Hospital Association Risk Pool program operates as a common risk-sharing management program for hospitals in Michigan; member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts.

Medical - The Hospital estimates the liability for medical claims that have been incurred through the end of the fiscal year, including both claims that have been reported and those that have not yet been reported. These estimates are recorded as a short-term liability and included in other accrued liabilities.

Note 11 - Risk Management (Continued)

Changes in the estimated liability for the past two years were as follows:

	2008	2007
Estimated medical liability - Beginning of year	$ 520,856	$ 472,741
Estimated claims incurred, including changes in estimates	3,675,000	3,730,000
Claim payments	(3,695,394)	(3,681,885)
Estimated medical liability - End of year	$ 500,462	$ 520,856

Malpractice - The Hospital is insured against potential professional liability claims under a claims-made policy, whereby only the claims reported to the insurance carrier during the policy period are covered regardless of when the incident giving rise to the claim occurred. Under the terms of the policy, the Hospital must pay a deductible toward the cost of litigating or settling any asserted claims. In addition, the Hospital bears the risk of the ultimate costs of any individual claim exceeding the policy limits for claims asserted in the policy year.

Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during the claims-made term, but reported subsequently, will be uninsured.

The Hospital is involved in certain legal actions arising from services provided to patients. Although the Hospital is unable to precisely estimate the ultimate cost of settlements of professional liability claims, provision is made for management's best estimate of losses of uninsured portions of pending claims and for known incidents that may result in the assertion of additional claims.

The accrual for estimated malpractice claims was $500,000 and $531,832 at June 30, 2008 and 2007, respectively. Management believes, after considering legal counsel's evaluations of all actions and claims, that insurance coverage and accruals for estimated losses are adequate to cover expected settlements.

Note 12 - Assets Held by Others

The Community Foundation for Northeast Michigan has an endowment fund established by donors for the benefit of the Hospital. The donors have stipulated that the principal is to be maintained in perpetuity and the Hospital is entitled to the earnings on such funds for operating purposes. The balance of the fund held at the Northeast Michigan Community Foundation at June 30, 2008 and 2007 was $1,748,479 and $1,875,410, respectively. These funds are not included with the Hospital's assets in the statement of revenues, expenses, and changes in net assets.

Note 13 - Union Contract

Approximately 73 percent of the Hospital's employees belong to one of three unions at the Hospital. The collective bargaining agreement for 18 percent of the employees expires in February 2012, while another 33 percent are covered under a collective bargaining agreement that expires in February 2010. The remaining 22 percent are covered by a collective bargaining agreement that expired in February 2008. The Hospital expects to have a new agreement in place by March 2009. Workers who are currently under negotiations have continued to operate under terms of the expired contract and Hospital operations have not been affected.

Note 14 - Charity Care

The Hospital maintains records to identify and monitor the level of charity care provided. These records include the amount of charges forgone for services and supplies rendered under its charity care policy. The following information measures the level of charity care provided:

	2008	2007
Charges forgone, based on established rates	$ 3,460,000	$ 3,410,000
Equivalent percent of charity care charges to total charges	1.52	1.40

In addition, under arrangements with various governmental insurance programs, the Hospital provides significant care to the local indigent population for which reimbursement for services rendered is generally less than the cost of providing such services. As part of their obligation to the local communities, the Hospital also provides numerous other services that benefit the communities and are generally performed at no charge.

Note 15 - New Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions*, in 2004.

Statement No. 45 establishes standards for the measurement, recognition, and display of other postemployment benefits (OPEB) and related liabilities, note disclosures, and if applicable, required supplementary information for other plans in which the Hospital participates. GASB 45 will be effective for the Hospital for the year ending June 30, 2009.

The Hospital is aware of such possible events, but has not been able to determine the expected outlays related to such events. The Hospital will continue to assess the impact of this new accounting pronouncement on the Hospital’s financial statements as more information becomes available.

The Governmental Accounting Standards Board (GASB) issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, in 2006.

Statement No. 49 requires estimation of expected pollution remediation outlays, when specified obligating events occur, and to determine whether these outlays should be accrued for as a liability. GASB 49 will be effective for the Hospital for the year ending June 30, 2009. Management is currently assessing the impact of this new accounting standard on the Hospital's financial statements for future reporting periods.